



FALLING LABOR PARTICIPATION UNDERMINES PROSPERITY

The official number of unemployed Americans shows only part of the overall picture in the nation's labor market. Today, the official unemployment rate shows about half the total number of American adults are either unemployed or marginally attached to the labor market. To combat against stagnation in our nation's labor market, Congress must remove barriers in federal policies that restrict skill-based education and training, and quick re-entry to productive, full-time work for those unemployed or long-term underemployed.

BACKGROUND

- **Official unemployment rate doesn't provide a full view of the labor market.**
 - The official unemployment rate reported by the U.S. Bureau of Labor Statistics (BLS) is the U-3 measure, which counts the "total unemployed, as a percent of the civilian labor force."¹
 - Generally, this statistic accounts for the total number of adults that are not employed and looking for work. In April 2023, the seasonally adjusted U-3 rate was 3.4 percent, the same as February 2020, and 11.3 percentage points lower than the peak rate during the COVID-pandemic.
 - The BLS reports several additional measures of "labor utilization," including the U-6 measure that counts the "total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force."²
 - The seasonally adjusted U-6 rate for April 2023 was 6.6 percent and nearly double the official U-3 rate.
 - The number of unemployed persons accounted in the U-3 measure for April totaled 5.7 million.³ Yet, the number of persons represented in the U-6 measure, accounting for both marginally attached persons and those part-time employed for economic reasons, totaled about 5.4 million in April 2023, almost the same amount as the officially unemployed.⁴

Quick Take

- The official unemployment rate measurement in the U.S. gives an incomplete view of the nation's labor market.
- The number of persons represented in an alternative measure, accounting for both marginally attached persons and those part-time employed for economic reasons, totaled over 5 million in April 2023, almost the same amount as the officially unemployed.
- As a share of the total population, the total number of employed Americans has been declining since April 2000. The male labor force participation rate has been declining for almost 75 years.
- Not working is harmful to families, and the lower income earnings and payroll tax revenue will put additional strain on public finance systems such as Medicare and Social Security.
- Congress should pass reforms, including the *Limit, Save, and Grow Act of 2023*, that would increase labor force participation and boost economic prosperity.

U.S. Bureau of Labor Statistics: "Table A-15. Alternative measures of labor utilization"						
	<i>Seasonally adjusted</i>					
Measure	Apr-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force	1.2	1.1	1.2	1.1	1.1	1.1
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force	1.7	1.6	1.5	1.7	1.8	1.6
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)	3.6	3.5	3.4	3.6	3.5	3.4
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	3.9	3.7	3.6	3.8	3.7	3.6
U-5 Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force	4.6	4.2	4.2	4.4	4.2	4.2
U-6 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force	7.0	6.5	6.6	6.8	6.7	6.6

Figure 1⁵

- **Long-term decline in U.S. labor force participation.**

- The overall labor force participation in the U.S. has been declining for the past couple decades,⁶ after reaching a peak rate of 67.3 percent in early 2000. The current labor force participation rate is 62.6 percent, above the COVID-pandemic low of 60.1 percent, but is still about 1 percent below the pre-pandemic rate of 63.3 percent in February 2020.⁷
 - The labor force participation rate for men in the U.S. has been steadily declining for almost 75 years. Today, despite increasing over the pandemic from a low of 66.1 percent, this rate is 1 percent below the pre-pandemic rate, and over 19 percentage points below the peak rate of 87.4 percent in 1949.⁸
- As a share of the total population, the total number of employed Americans has been declining since the early 2000s. The share of the U.S. population employed (the employment-population ratio) today is 60.4 percent, the same level it was in 1985, and only slightly above the average rate of 59.2 percent between 1948 and 2023.⁹
 - The employment-population ratio provides broader context as a labor market indicator when the labor force participation rate and the unemployment rate are working in countervailing directions.
 - The current employment-population ratio is 4.3 percentage points below the rate in April 2000, and 0.7 percentage points below the pre-pandemic rate of 61.1 percent in February 2020.¹⁰
 - Since April 2000, the employment-population ratio has decreased overall, with two periods of sharp decline.
 - The first abrupt drop in the employment-population ratio occurred between 2007 and 2009, and disproportionately concentrated among less educated and younger persons, both men and women.¹¹
 - The next significant decrease occurred early in the COVID-pandemic. Despite having steadily increased from the pandemic low of 51.3 percent, it remains 0.7 percent below the pre-pandemic rate of 61.1 percent. About half of the employment-population gap from the pre-pandemic level is due to the decline in employment from an aging population. The other half is accounted for by accelerated retirements among workers 65 and older.¹²

U.S. Labor Force Participation, 1948-2023

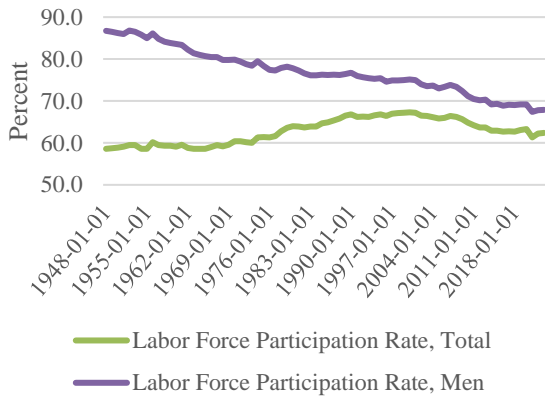


Figure 2¹³

U.S. Employment-Population Ratio, 1948-2023

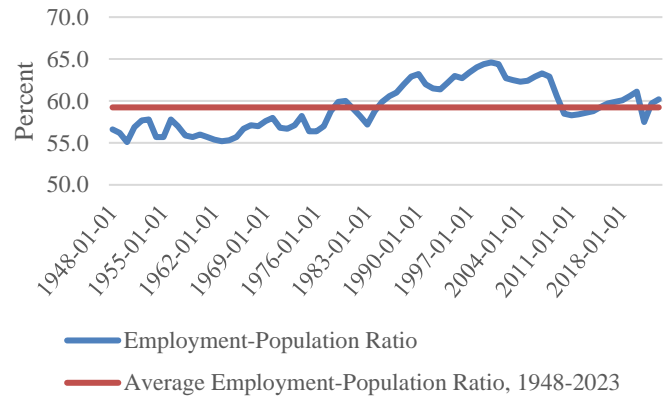


Figure 3¹⁴

- The lower labor force participation impacts inflation, pushing up prices at businesses as they pay fewer workers for the same level of output. These inflationary pressures can build when workers demand higher wages to maintain purchasing power as prices in the economy increase.
 - Between March 2021 and March 2023, average hours worked declined from 34.9 to 34.4, which translates to 2.2 million fewer full-time-equivalent workers.¹⁵ Over this same period, American workers lost more in reduced purchasing power than increases in earning—the full-time median worker earned \$5,600 more though lost \$8,600 in purchasing power.¹⁶
- **Not working erodes economic prosperity.**
 - Not working is harmful to families in many ways.¹⁷ Failing to work at all or remain long-term underemployed erodes paths for upward mobility.¹⁸ It cuts off opportunities to build wealth that comes from the increased income and savings earned through work.
 - The reduced earnings potential for adults not working has longer-term effects on their children’s income earning potential. Individuals that had parents experiencing long-term unemployment are more likely to have lower lifetime earnings themselves and greater risk of long-term unemployment.¹⁹
 - Not working or remaining underemployed long-term also leaves individuals without purpose²⁰ and creates non-financial stresses and harmful behaviors that often stem from idleness and non-work activity.²¹
 - A recent Federal Reserve study estimates that between 9 and 26 percent of the decrease in prime age labor force participation (February 2020 to June 2021) is likely attributed to increased substance abuse.²²
 - Also, unemployed men tend to engage in unproductive activities, with those men not in the labor force spending hours daily on leisure activities, including spending upwards of 5 hours a day watching television and movies. Further, men without work tend to spend less time caring for family members and about as much time doing household chores as employed women.²³
 - Lower labor labor market participation, especially among prime-age men, contributes to slower economic growth potential²⁴ and a higher dependency ratio.^{25,26} The continued loss of earned income will put additional strain on public finance systems such as Medicare and Social Security, programs that are already facing steep deficits.^{27,28}
 - Government benefits subsidize Americans not to work and finance non-employment lifestyles.²⁹ One study prior to the pandemic found that 64% of nonworking prime-age men received some form of government assistance, 40% received disability assistance, and 38% received food stamps.³⁰
 - One recent study found that combined unemployment benefits and Obamacare subsidies create an enormous “cliff” effect for a spouse to go from not working and receiving government aid to working and losing benefits. A spouse would need to earn, for example, an annual wage exceeding \$80,000 to earn the same after-tax income as a family with two unemployed spouses receiving overall benefits.³¹

- Overall, the combined effect of anti-growth and anti-work government unemployment and health insurance subsidy policies result in persistent labor market stagnation, and if allowed to extend over an 8 year period would reduce Medicare and Social tax revenue up to \$900 billion.³²

POLICY SOLUTIONS

- Congress should pass the *Limit, Save, Grow Act of 2023*,³³ which would enhance federal work requirements for those able-bodied adults receiving federal welfare assistance in Medicaid and Supplemental Nutrition Assistance Program (SNAP). These reforms would measurably increase the labor force participation in the U.S. In addition, this bill would reduce federal deficit-spending and meaningfully reduce inflation, which would boost real earnings for workers.
- Congress should pass legislation such as the *Protecting Taxpayers and Victims of Unemployment Fraud Act*,³⁴ which strengthens the integrity of payments in federal unemployment benefits and ends expansions of unemployment benefits instituted during the COVID-pandemic.
- Congress should pass legislation that would provide greater education and training opportunities, as well as work-related flexibilities, giving greater incentives for working age adults to productively engage in full-time employment, and quickly re-enter full-time work after a job loss. Examples of such bills include:
 - *Higher Education Reform and Opportunity Act of 2019*³⁵ – This bill would reform higher education financing by removing federal student loans and grants from the federal accreditation process, allowing for greater customization of higher education, earlier entry into the labor market, and lower student loan burdens.
 - *Apprenticeship Freedom Act*³⁶ and *Training America's Workforce Act*³⁷ – These bills would expand opportunities for apprenticeships across more industries and allow more students to access on-the-job, paid education with successful entry into careers.
 - *Working Families Flexibility Act of 2021*³⁸-- This would amend the Fair Labor Standards Act that restricts private businesses from offering childcare benefits.³⁹

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¹Table A-15. Alternative measures of labor utilization. U.S. Bureau of Labor Statistics. <https://www.bls.gov/news.release/empst.t15.htm>

² <https://www.bls.gov/news.release/empst.t15.htm>

³ News Release. The Employment Situation – April 2023. U.S. Bureau of Labor Statistics. May 5, 2023.

<https://www.bls.gov/news.release/pdf/empst.pdf>

⁴ Tables A-8 and A-16. <https://www.bls.gov/news.release/empst.toc.htm>

⁵ The BLS notes that “[p]ersons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for work. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.”

<https://www.bls.gov/news.release/empst.t15.htm>

⁶ The annual rate of growth in the overall U.S. labor force has decreased from about 2.6 percent between 1969-1973 economic cycle to 0.2 percent in the current economic cycle, which combines the decrease in the labor force during the 2020 recession and the changes over 2021 and 2022. The 2023 OASDI Trustees Report. Social Security Administration. 2023. <https://www.ssa.gov/OACT/TR/2023/tr2023.pdf>

⁷ U.S. Bureau of Labor Statistics, Labor Force Participation Rate [CIVPART], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CIVPART>, May 10, 2023.

⁸ *Id.*

⁹ The employment-population measure is the product of the labor force participation multiplied by one less than the unemployment rate (1 minus the unemployment rate). Sarah A. Donovan. An Overview of the Employment-Population Ratio. Congressional Research Service. May 27, 2015. <https://sgp.fas.org/crs/misc/R44055.pdf>

¹⁰ U.S. Bureau of Labor Statistics, Employment-Population Ratio [EMRATIO], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/EMRATIO>, May 11, 2023.

¹¹ Robert A. Moffitt. The U.S. Employment-Population Reversal in the 2000s: Facts and Explanations. National Bureau of Economic Research. NBER Working Paper 18520. November 2012. https://www.nber.org/system/files/working_papers/w18520/w18520.pdf

¹² Eliza Forsythe, Lisa B. Kahn, Fabian Lange, and David Wiczer. Where have all the workers gone? Recalls, retirements, and reallocation in the COVID recovery. Labour Economics. Vol. 78. October 2022.

<https://www.sciencedirect.com/science/article/abs/pii/S0927537122001415#preview-section-snippets>

¹³ <https://fred.stlouisfed.org/series/CIVPART>, May 10, 2023.

¹⁴ <https://fred.stlouisfed.org/series/LNS11300001>; <https://fred.stlouisfed.org/series/EMRATIO>, May 11, 2023.

¹⁵ Rachel Greszler. What Is Happening in This Unprecedented U.S. Labor Market? April 2023 Updated. The Heritage Foundation. Background Report No. 3764. April 27, 2023. <https://www.heritage.org/sites/default/files/2023-04/BG3764.pdf>

¹⁶ *Id.*

¹⁷ U.S. Joint Economic Committee—Republicans. An Overview of Social Capital in America. June 2021.

https://www.jec.senate.gov/public/_cache/files/8cb559c4-3764-4706-9009-b4d8565ec820/scp-volume-1-digital-final.pdf

¹⁸ U.S. Joint Economic Committee—Republicans. A Policy Agenda for Social Capital. December 2021.

https://www.jec.senate.gov/public/_cache/files/f8fba06-cfc6-48da-9369-db9906710e9b/a-policy-agenda-for-social-capital.pdf

¹⁹ Scott Drewiak and Murat Mercan. Long-term Unemployment and Intergenerational Earnings Mobility. 2009.

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²⁰ Rachel Greszler and Matthew Lobel. Why America's Labor Force Decline Matters Beyond Current Supply Shortages, Rising Prices. The Heritage Foundation. March 29, 2022. <https://www.heritage.org/jobs-and-labor/commentary/why-americas-labor-force-decline-matters-beyond-current-supply-shortages>

²¹ https://www.jec.senate.gov/public/_cache/files/f8fba06-cfc6-48da-9369-db9906710e9b/a-policy-agenda-for-social-capital.pdf

²² Jeremy Greenwood, Nezih Guner, and Karen Kopecky. Did Substance Abuse during the Pandemic Reduce Labor Force Participation? Federal Reserve Bank of Atlanta. Policy Hub Paper No. 5-2022. May 2022. <https://www.atlantafed.org/-/media/documents/research/publications/policy-hub/2022/05/09/05--did-substance-abuse-during-pandemic-reduce-labor-force-participation.pdf>

²³ Angela Rachidi. America Needs Prime-Age Men to Be Working. American Enterprise Institute. November 14, 2022. <https://www.aei.org/op-eds/america-needs-prime-age-men-to-be-working/>

²⁴ Rachel Greszler. The Labor Market's Double-Edged Sword. The Heritage Foundation. October 24, 2022. <https://www.heritage.org/jobs-and-labor/commentary/the-labor-markets-double-edged-sword>

²⁵ <https://www.bls.gov/emp/tables/economic-dependency-ratio.htm>

²⁶ Ana Maria Santacreu. Long-Run Economic Effects of Changes in the Age Dependency Ratio. Federal Reserve Bank of St. Louis. Economic Synopses No. 17. 2016. <https://research.stlouisfed.org/publications/economic-synopses/2016/09/02/long-run-economic-effects-of-changes-in-the-age-dependency-ratio/>

²⁷ The combined Social Security trust funds are projected to have a 3.61 percent actuarial deficit over the next 75 years, up from an estimated 3.42 percent the prior year. Also, the projected reserve depletion date for the combined Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds is 2034. Social Security Administration. <https://www.ssa.gov/policy/trust-funds-summary.pdf>

²⁸ The 2023 Medicare Trustee Report states that total Medicare expenditures will rise faster than the increase in aggregate earnings or the economy overall. As a share of the economy, spending in Medicare will increase from 3.7 percent in 2022 to 6.1 percent by 2097 (and 8.3 percent in 2097 under a scenario with higher prices). 2023 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Medicare Insurance Trust Funds. March 2023. <https://www.cms.gov/oact/tr/2023>

²⁹ Angela Rachidi. America Needs Prime-Age Men to Be Working. American Enterprise Institute. November 14, 2022. <https://www.aei.org/op-eds/america-needs-prime-age-men-to-be-working/>

³⁰ Social Capital Project – a Project of the Joint Economic Committee – Republicans. Inactive, Disconnected, and Ailing: A Portrait of Prime-Age Men Out of the Labor Force. Report No. 3-18. September 2018. https://www.jec.senate.gov/public/_cache/files/4a929c09-9936-47eb-89e3-a77fd3fcd139/3-18-jec-report-inactive-disconnected.pdf

³¹ Casey Mulligan and EJ Antoni. Paying Americans Not to Work. Committee to Unleash Prosperity. 2022. <https://committeetounleashprosperity.com/wp-content/uploads/2022/12/Paying-Americans-Not-to-Work.pdf>

³² Mulligan (2023) the combination of 8 years of remote learning and anti-growth policies in increased federal regulation, taxes, and health-insurance subsidies would reduce labor income by 5.0-6.5 percent for 8 years and result in loss of Medicare and Social Security tax revenue between \$710 billion and \$888 billion. Casey Mulligan. Payroll Tax Revenues Down \$400 to \$900 Billion Due to Lower Wages and Less Growth. Committee to Unleash Prosperity. March 2023. https://committeetounleashprosperity.com/wp-content/uploads/2023/03/CTUP_PayrollTaxRevenue.pdf

³³ H.R. 2811 – Limit, Save, Grow Act of 2023. 118th Congress. <https://www.congress.gov/bill/118th-congress/house-bill/2811/text>

³⁴ H.R. 1163 – Protecting Taxpayers and Victims of Unemployment Fraud Act. 118th Congress. <https://www.congress.gov/bill/118th-congress/house-bill/1163>

³⁵ S. 2339 – Higher Education Reform and Opportunity Act of 2019. 116th Congress. <https://www.congress.gov/bill/116th-congress/senate-bill/2339/text>

³⁶ H.R. 9509 – Apprenticeship Freedom Act. 117th Congress. <https://www.congress.gov/bill/117th-congress/house-bill/9509/text/ih?overview=closed&format=txt>

³⁷ S. 3768 – Training America's Workforce Act. 117th Congress. <https://www.congress.gov/bill/117th-congress/senate-bill/3768/text?r=1&s=1>

³⁸ S. 247 – Working Families Flexibility Act of 2021. 117th Congress. <https://www.congress.gov/bill/117th-congress/senate-bill/247>

³⁹ <https://www.heritage.org/jobs-and-labor/report/what-happening-unprecedented-us-labor-market-april-2023-update>